

## Federal Budget Update 2009

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Looking after your financial life

## Superannuation

### 1. Concessional Contributions Cap reduced

The Government has announced that, effective 1 July 2009, the concessional contributions cap (CC) will be reduced to \$25,000 (indexed) per annum. Concessional contributions generally include SG, salary sacrifice contributions and personal deductible contributions.

The transitional CC, which applies to individuals aged 50 and over at any time during the transitional period (2007/08 to 2011/12), will be halved from \$100,000 pa to \$50,000 pa (not indexed) for the 2009/10, 2010/11 and 2011/12 financial years.

However, the annual non-concessional contributions cap (NCC), will remain at the 2008/09 level of \$150,000. It is proposed that from next financial year the NCC will be calculated as six times the level of the CC.

There was no mention of any change to the 'bring forward' arrangement.

Certain members with defined benefit interests at 12 May 2009 will have 'grandfathering' arrangements apply (where their notional taxed contributions would otherwise exceed the reduced cap). Similar arrangements were applied when the concessional contributions cap was introduced in 2007.

#### Impact

- Clients who have money available to invest into superannuation in the current financial year could consider maximising superannuation contributions to fully utilise their 2008/09 contributions caps.
- Clients currently making total concessional contributions of more than \$25,000 each year (or \$50,000 if aged 50 or over) will need to reduce salary sacrifice (or personal deductible contributions) from 1 July 2009 to ensure that they do not inadvertently breach the reduced concessional contributions cap. Excess concessional contributions are subject to tax of 31.5%, in addition to the 15% contributions tax. Excess concessional contributions also count towards an individual's non-concessional contributions cap.
- For clients not currently making additional contributions to superannuation (i.e. in addition to SG), the need to start making contributions earlier is now greater, as the ability to make large 'last minute' concessional contributions has been diminished. Clients could be encouraged to start a regular savings plan into super to ensure adequate retirement savings are accumulated.
- Clients who are salary sacrificing bonuses, especially where the amount is unknown, need to take extra care not to inadvertently exceed the CC.

### 2. Maximum Government Co-contribution reduced

A temporary reduction of the maximum Government co-contribution from \$1,500pa to \$1,000pa has been announced. This will apply to eligible personal superannuation contributions made on or after 1 July 2009.

At the end of 3 full financial years, the co-contribution matching rate will be gradually increased until it returns to 150% in 2014-15. The lower and upper co-contribution thresholds will not be impacted and will continue to be indexed to AWOTE, but the reduction rate will change; see the below table for details:

	2009-10 to 2011-12	2012-13 and 2013-14	2014-15 onwards
<b>Matching rate</b>	100%	125%	150%
<b>Maximum co-contribution</b>	\$1,000	\$1,250	\$1,500

The table below shows the Government co-contribution entitlement for a personal superannuation contribution of \$1,000 for a range of taxable incomes; comparing 2008/09 to 2009/10.

Total taxable income *	\$30,000	\$40,000	\$50,000	\$60,000	\$70,000
<b>2008/09 - \$1,500 max co-cont:</b>					
Gov't co-contribution	\$1,500	\$1,017	\$517	\$17	\$0
Net super contribution	\$2,500	\$2,017	\$1,517	\$1,017	\$1,000
<b>2009/10 - \$1,000 max co-cont:</b>					
Gov't co-contribution**	\$1,000	\$678	\$345	\$12	\$0
Net super contribution	\$2,000	\$1,517	\$1,017	\$1,000	\$1,000

\* The definition of taxable income for co-contributions will be expanded from 1 July 2009.

\*\* Estimated Government Co-contributions have been calculated using the 2008/09 lower threshold. This threshold will be indexed to AWOTE for 2009/10.

### Impact

As a rule of thumb, for 2009/10, individuals with total income under \$50,000 pa and \$1,000 of after tax money available to contribute will be generally better off investing an after-tax amount of \$1,000 compared with an equivalent (grossed up) amount invested pre-tax. This is because the benefit received by the Government co-contribution is higher than the equivalent tax savings available through salary sacrifice.

### 3. Minimum pension reduction extended

The Government announced that the 50% reduction in minimum annual payment amounts for certain retirement income streams will be extended to the 2009/10 financial year. The reduction applies to account-based, allocated and market-linked (term allocated) pensions and annuities.

The minimum payment formula has not been changed.

#### Impact

- Individuals with an existing income stream, and those who purchase a new income stream in 2009/10, will have the ability to only receive half of their minimum annual payment in 2009/10.
- Centrelink/DVA clients who choose to reduce their payments should be aware that their Centrelink benefits may be affected by their choice. These clients should advise Centrelink/DVA of their change in circumstances within 14 days. This is an existing Centrelink/DVA requirement for notification of change in circumstances.
- Clients will have more flexibility with their income payments. Their income needs can be reviewed to ensure their pension payments next year reflect those needs.

### 4. Small and insoluble lost accounts to be transferred to the ATO

From 1 July 2010, superannuation providers will be required to transfer accounts of lost members with balances of less than \$200 (small accounts), and those which have been inactive for a period of five years and have insufficient records to identify the owner of the account "insoluble accounts" to unclaimed monies.

## Taxation

### 1. Reductions in Personal Income Tax

The Government has confirmed that previously legislated tax cuts will go ahead for the 2009/10 and 2010/11 financial years. No additional tax cuts were announced in this budget.

Current		From 1 July 2009		From 1 July 2010	
Taxable income	Rate	Taxable income	Rate	Taxable income	Rate
0- \$6,000	0%	0- \$6,000	0%	0- \$6,000	0%
\$6,001 - \$34,000	15%	\$6,001 - <b>\$35,000</b>	15%	\$6,001 - <b>\$37,000</b>	15%
\$34,001 - \$80,000	30%	<b>\$35,001</b> - \$80,000	30%	<b>\$37,001</b> - \$80,000	30%
\$80,001 - \$180,000	40%	\$80,001 - \$180,000	<b>38%</b>	\$80,001 - \$180,000	<b>37%</b>
\$180,001+	45%	\$180,001+	45%	\$180,001+	45%

Income tax payable at selected taxable income levels (ignoring Medicare levy and tax offsets)

Taxable income	Current tax (08/09)	Legislated tax (09/10)	Legislated tax (10/11)
\$30,000	\$3,600	\$3,600	\$3,600
\$35,000	\$4,500	\$4,350	\$4,350
\$75,000	\$16,500	\$16,350	\$16,050
\$80,000	\$18,000	\$17,850	\$17,550
\$150,000	\$46,000	\$44,450	\$43,450

### 2. Insurance Rebate

The Government has announced changes to the private health insurance rebate. These changes take affect from 1 July 2010.

Currently, the private health insurance rebate is payable to anyone who took out cover with a complying private health insurance policy and is based on the premium paid.

Age of the oldest person covered by the policy*	Amount of the rebate
Less than 65 years	30% of the premium paid
65 to 70 years	35% of the premium paid
70 years only	40% of the premium paid

\*If the oldest person moves into the next age group during the year, the rebate is based on the number of days that person was in each group.

From 1 July 2010 the Government will introduce a 3 tiered approach to determine the amount of private health insurance rebate payable to individuals. Once income is above the upper threshold (\$120,000 for singles and \$240,000 for couples) no private health insurance rebate will be payable. The amount of the rebate will also be dependant on the age of the individual as the tables below illustrate.

	<b>Current surcharge thresholds (projected 2010/11)</b>	<b>Tier 1</b>	<b>Tier 2</b>	<b>Tier 3</b>
Singles	\$0-\$75,000	\$75,001 - \$90,000	\$90,001 - \$120,000	\$120,001+
Families	\$0 - \$150,000	\$150,001 - \$180,000	\$180,001 - \$240,000	\$240,001+
Medicare levy surcharge	Nil	1.00%	1.25%	1.50%
<b>Private health insurance rebate</b>				
Less than 65	30%	20%	10%	Nil
65 – 69	35%	25%	15%	Nil
70 and over	40%	30%	20%	Nil

All income thresholds will continue to be indexed. The new definition of income for Medicare Levy Surcharge will be used to determine rebate entitlements (see below).

### 3. Medicare Levy Surcharge increase

To ensure that middle and high income earners do not abandon their private health insurance the Government has introduced variable rates of Medicare Levy surcharge, if appropriate private health insurance cover is not held and certain income thresholds are exceeded (as illustrated in the table above).

Previously legislated changes to the definition of 'income' will also apply to the Medicare levy surcharge from 1 July 2009, which includes:

- taxable income;
- reportable fringe benefits;
- reportable employer superannuation contributions;
- personal deductible superannuation contributions;
- total net investment loss

Note: amounts withdrawn from superannuation to which the low rate cap amount (\$150,000 for 2009/10) has been applied are not included in 'income'.

### 4. Increase in the Medicare Levy low income thresholds

The Government has announced new Medicare levy thresholds that are applicable for the current financial year (ending 30 June 2009). These are \$17,794 for individuals (previously \$17,309) and \$30,025 for families (previously \$29,207). The increase on these thresholds for each dependent child or student will be \$2,757.

The low income threshold for pensioners below age pension age has been increased to \$25,299 for the year ending 30 June 2009. This will ensure such pensioners do not pay the Medicare levy when they do not have an income tax liability.

## 5. First Home Owner's Grant Boost – extension

The Government have announced that the First Home Owners Boost (FHOB) will be extended for a further 6 months for both the housing market and first home buyers. For eligible first home buyers who enter into contracts between 1 July 2009 and 30 September 2009, the FHOB will continue to provide \$7,000 for the purchase of established homes and \$14,000 for the purchase of new homes. Combined with the first home owners grant eligible persons who purchase an existing dwelling will receive \$14,000 of assistance and where eligible persons purchase a new dwelling they will receive \$21,000 of assistance.

For eligible first home buyers who enter into contracts between 1 October and 31 December the FHOB will be halved. Where an existing dwelling is purchased, an eligible first home buyer will receive \$3,500 of assistance where as if a new dwelling is purchased they would receive \$7,000 of assistance. Coupled with the first home owners grant, eligible first home buyers will receive \$10,500 assistance for an existing dwelling and \$14,000 of assistance for a new dwelling.

## 6. Small business tax relief

### Effective date: eligible assets acquired between 13 December 2008 and 31 December 2009

As part of previous fiscal stimulus packages, the Government had announced that small business (those with a turnover of less than \$2million) would be able to claim a bonus tax deduction for the acquisition of eligible assets, in addition to the usual capital allowance deduction. Initially set as a 10% bonus deduction, then 30%, the bonus has again been lifted to 50%.

To be an eligible asset for this bonus, the asset must:

- cost more than \$1,000 (although substantially similar assets may be aggregated in order to reach this threshold)
- be purchased between 13 December 2008 and 31 December 2009
- be used or installed ready for use by 31 December 2010.

As an example of the benefit this provides, for a small business being conducted through a corporate structure, for every \$1,000 of eligible asset acquired, the total tax deduction will be \$1,500. A \$1,500 tax deduction provides a tax saving of \$450. Therefore the overall after tax cost of \$1,000 acquisition would be \$550.

The increase in the level of bonus deduction and extension of time, from 30 June 2009, for asset acquisition provides some relief for small business taxpayers who may have struggled to acquire these assets due to cash flow constraints.

For non-small business taxpayers, the minimum asset threshold to qualify for a bonus is \$10,000 (subject to similar aggregation rules) and the bonus conditions are set out in the following table.

Bonus deduction	Asset purchased between	First used by or installed ready for use by
30%	13 December 2008 and 30 June 2009	31 December 2010
10%	1 July 2009 and 31 December 2009	31 December 2010

## **7. Changes to taxation of employee share scheme entitlements**

**Effective date: Shares or options acquired after 7:30pm, 12 May 2009**

In a move which will simplify the treatment of shares or options acquired under employee share schemes, the option to defer the taxation treatment of any discount (i.e. the difference between the market value of the share/option and amount paid for its acquisition) until a later income year will be removed. As a result, in all cases this discount will now be assessed in the year of grant.

However, where the employee share scheme meets certain criteria, up to \$1,000 of the discount will be exempt from tax but only for individuals with adjusted taxable incomes of less than \$60,000 (previously unlimited).

This change will have a significant impact on a number of people, as employee shares are offered by many Australian listed companies, with a general staff entitlement of \$1,000 of shares each year where certain thresholds are met. Under the rules prior to this announcement, this was essentially a tax free bonus to each employee, with the individual only having a tax liability for any future growth in the underlying share/option price. This tax free bonus will now be limited to those with adjusted taxable incomes below \$60,000.

## **8. Removal of tax exempt status for foreign employment income**

**Effective date: 1 July 2009**

Under existing tax rules, there is a general exemption from Australian tax for income earned overseas in foreign employment that lasts for at least 91 consecutive days. This general exemption is being removed from 1 July 2009 except where the income is earned as an aid worker, a charitable worker, under certain types of government employment or on projects that are considered to be in the national interest.

In all other cases, the income will be assessable in Australia, but a tax offset will be given for any tax paid in the foreign country on that income, ensuring there is no double taxation.

This change will have a significant impact for expats (who are still residents for Australian tax purposes), particularly those working in Asia. In many Asian countries, expats are earning significantly high wages, but with local taxes in those countries capped at 15%. Under the new rules, this income will be taxed in Australia with a tax offset for the foreign tax paid. If the foreign income is high enough to place the individual on the highest marginal tax rate (46.5% including Medicare levy), they will now have an additional 31.5% tax liability to pay in Australia.

## Social Security

### 1. Age Pension increases

The Government has announced the following changes from 20 September 2009:

- an increase to the base rate for single age pensioners of \$30 per week;
- a combining of the four separate allowances (GST, Utilities, Telephone/Internet and Pharmaceuticals) into one 'pension supplement' that will be paid fortnightly; and
- an increase to the pensioner supplement of \$2.49 per week for singles and \$10.14 per week (combined) for couples.

These increases will apply to recipients of the Age Pension, Service Pension, Disability Support Pension, Carer Payment, Bereavement Allowance, Widow B Pension, Wife Pension, Income Support Supplement and to War Widows.

#### Total increase in Age Pension entitlements

Maximum Single Age Pension entitlement	20 March 2009	from 20 September 2009	Increase
Per fortnight	\$575.80	\$640.78	\$64.98
Per annum	\$14,970.80	\$16,660.28	\$1,689.48

### 2. Income test – changes to taper rate

From 20 September, 2009, payments to pensioners will be reduced by 50 cents for each extra dollar of private income above the income test "free area". Currently, once a pensioner earns over the tax free amount a 40 cent per \$1 reduction applies.

	Amount of income per fortnight before tapering starts	Current – Pension cuts out at:	From 20 Sept 2009- Pension cuts out at:
Singles	\$ 138	\$ 47,444	\$38,693
Couples	\$ 240	\$ 72,423	\$59,228

### 3. Incentives for pension-age Australians to remain in the workforce

#### a. Pension bonus scheme scrapped

The pension bonus scheme will be closed from 20 September 2009 to new entrants. There will be no change to existing members of the scheme, and they will continue to accrue entitlements under the current rules. The new 'work bonus' will replace the pension bonus scheme.

#### b. Pensioner 'Work Bonus'

From 20 September 2009, this bonus will allow pensioners to get a maximum of \$125 per fortnight in additional pension payments. This will be achieved by disregarding half of the first \$500 per fortnight of employment income under the income test.

#### 4. Benefits for self-funded retirees

##### a. Commonwealth Seniors Health Card – Government back flip

Earlier this year the Government introduced legislation to include tax free pension income in the income test for the Commonwealth Seniors Health Card (the Card) from 1 July 2009. The intention of this measure was to reduce the number of self funded retirees who were eligible for the Card. The Government has decided not to proceed with these changes.

##### b. New payment for self funded retirees

From 20 September 2009, approximately 300,000 self-funded retirees will be provided with access to the Seniors Supplement.

The Seniors Supplement will be \$790.40 a year for singles and \$1190.80 a year for couples combined. Payments will be made quarterly. Self-funded retirees eligible for the Commonwealth Seniors Health Card or the Department of Veterans' Affairs Gold card with the current Seniors Concession Allowance will receive the Seniors Supplement.

#### 5. Increase to the minimum Age Pension Age

The qualifying age for the Age Pension and Commonwealth Seniors Health card will increase for both men and women to 67 from 2023. The transition will not commence until July 2017, when the qualifying age will increase by 6 months every 2 years.

Commencement date	Qualifying Age	Affects people born	Reach new Age Pension age
Until 1 July 2017	65 years	Before 1 July 1952	
01 July 2017	65 and 6 months	1 July 1952 to 31 December 1953	1 January 2018 to 30 June 2019
01 July 2019	66 years	1 January 1954 to 30 June 1955	1 January 2020 to 30 June 2021
01 July 2021	66 and 6 months	1 July 1955 to 31 December 1956	1 January 2022 to 30 June 2023
01 July 2023	67 years	From 1 January 1957	From 1 January 2024

The above changes do not impact the qualifying age (age 60) for the Veterans' Service Pension.

#### 6. Pensioner and beneficiary living cost index

The Government will provide funding to develop a new Pensioner and Beneficiary living cost index for use in the cost of living indexation of base rates of income support payments covered by Age pension, Disability Support Pension Carer payment and Service Pension.

Pension rates will continue to be benchmarked to Male Total Average Weekly Earnings (MTAWE). However, the single rate of pension will be benchmarked to 27.7% of MTAWE, up from 25%.

#### 7. Paid Parental Leave

The Government announced it will introduce a paid parental leave scheme. The scheme will be funded by the Government and is intended to commence on 1 January 2011. Parents will be able to lodge claims from 1 October 2010.

Payments under the scheme will be paid to the primary carer at the adult federal minimum wage (currently \$543.78 per week) for a period of up to 18 weeks. Payments made under the paid parental leave scheme will be treated as taxable income and will affect entitlement to family assistance payments, but will not be counted as income for income support payments.

Primary carers (such as stay at home mums) who do not qualify for the scheme or those people who elect not receive paid parental leave can still access the baby bonus or Family Tax Benefit Part B where they meet the eligibility requirements for those benefits.

Primary carers will be eligible for the scheme if they:

- Earned less than \$150,000 in the full financial year prior to the birth or adoption of a child;
- Have worked at least 330 hours over the 10 months (equivalent to around one full day of work each week) preceding the birth or adoption of a child; and
- Have also worked continuously with one or more employers for at least 10 of the 13 months before the expected date of birth or adoption.

Paid parental leave also will be available to contractors, casual workers and the self employed.

### **Employer funded leave**

Parents who are eligible for the scheme will be able to continue to access employer funded leave around the time of the birth or adoption of the child. This includes employer provided maternity and recreation leave. Government funded paid parental leave can be taken in conjunction with, or in addition to, employer provided paid leave.

### **Effect on baby bonus and other family benefits**

Parents who choose to receive paid parental leave will not be eligible to receive the baby bonus, except in the cases of multiple births where parents will not receive the baby bonus for the first child only.

Parents who choose to receive paid parental leave will not be entitled to the following benefits for the 18 weeks whilst in receipt of paid parental leave:

- Family Tax Benefit Part B
- Dependent spouse
- Child-housekeeper & Housekeeper tax offset

### **Operation of the scheme**

Employers will make the paid parental leave payments for most employees. The Government will provide employers with funds in advance of the payments they make to employees.

## **8. Family Tax Benefit Parts A and B (and Baby Bonus)**

Currently the rates of Family Tax Benefit (FTB) Part A are indexed to a proportion of the pension payments or the Consumer Price Index (CPI) should it be higher. From 1 July 2009 FTB Part A will be indexed by the CPI. Generally the income thresholds for FTB parts A and B are indexed by the CPI and this will continue for the lower thresholds. However the higher thresholds will not be subject to CPI indexation until 1 July 2012. These thresholds are:

<b>Benefit</b>	<b>Threshold</b>
FTB Part A - base rate combined income	\$94,316
FTB Part B - primary income earner	\$150,000
Additional combined income per child after the first	\$3,796
Baby bonus - family income in 6 months following the birth	\$75,000

For FTB Part A, the taper rates remain at 30 cents for every dollar in excess of these thresholds. The combined effect of these changes will be to slowly reduce the benefits for higher income earners.

## 9. Maternity Immunisation Allowance

The Government will change the timing of the indexation of the maternity immunisation allowance from twice a year to once a year. The first annual indexation will occur on 1 July 2010.

## 10. Changes in the asset test hardship rules

Effective from 1 July 2009 the asset test hardship rules will be amended. The changes increase the amount of readily available funds applicants can have when seeking to have an unrealisable asset disregarded.

The new limits (based on payment rates as at 20 March 2009) will be:

Applicant	Limit
Single person with no children	\$11,785.80
Single person with dependent child or children, or aged over 60 years with nine months on income support	\$12,750.40
Couple	\$21,268.00
Parenting payment single	\$14,814.80

The limits will be indexed at the same rate as payments, ensuring the limits maintain their real value.

## 11. Carer Supplement

In addition to the increase in the pension rates of \$32.49 per week for singles and \$10.14 for couples, carers who receive Carer Payment or a related income support payment will receive a new annual Carer Supplement of \$600.

The supplement will be payable to people who receive either:

- Carer Payment
- Both Wife Pension and Carer Allowance
- Both Department of Veterans' Affairs (DVA) Partner Service Pension and Carer Allowance
- DVA Carer Service Pension

Carers who receive both Carer Payment and Carer Allowance will receive two payments (\$1,200) every year. The first payment of the Carer Supplement will be made to Carers before July 2009. The regular payment will be made from 1 July 2010 onwards.

## Disclaimer

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